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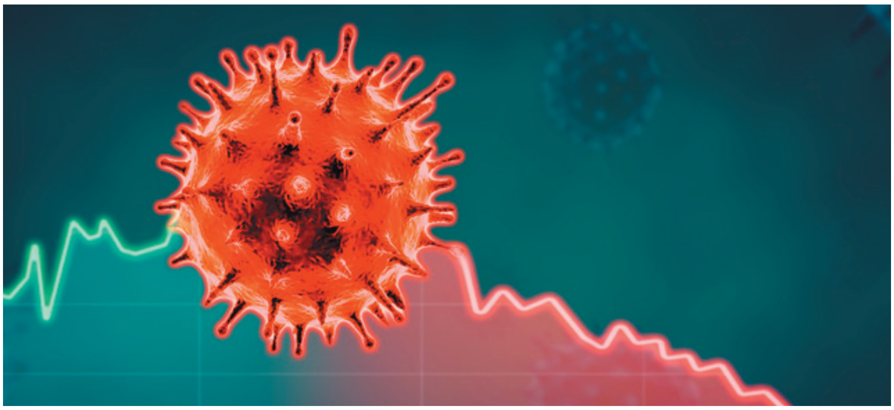
GPs ponder early repayments for credit lines as coronavirus threatens liquidity

Drawdowns could enable managers to pre-empt liquidity issues arising from the pandemic but may compound the problem for certain LPs



Some general partners are considering early repayments for subscription credit line drawdowns in anticipation of potential liquidity issues among LPs arising from coronavirus.

Modern limited partnership agreements typically specify a clean-down period, or a deadline by which individual loan drawdowns need to be repaid. The Institutional Limited Partners Association suggests this period be no longer than 180 days, though it can vary from fund to fund.

"Funds with outstanding loans that are closer to the end of such clean-down periods could call capital to repay these loans early because they want to pre-empt any liquidity issues that LPs may have in a couple of months," Fi Dinh, a Singapore-based fund finance director at ING, told Private Equity International.

"A number of GPs that we spoke to have indicated they may consider [this option]."

Institutions such as underfunded pensions could face a liquidity crunch in the coming weeks and months following a rout in the public markets and slowdown in private market exit activity. Q1 is expected to be a write-off for sales, with Brookfield Asset Management among those shelving deals following disruption to travel and market stability.

The spectre of diminished liquidity could make early loan repayments an unappealing prospect for some LPs.

"Some of our sponsor clients have received calls from LPs instructing them to utilise subscription-backed credit lines as much and as long as possible," Zac Barnett, managing partner at debt advisory Fund Finance Partners, said.

"This is because LPs are expecting to receive numerous capital calls from GPs looking to stabilise certain of their portfolio companies in the downturn or amass cash so they'll be able to seize opportunities in the new world of attractively priced assets."

FFP is negotiating two credit line extensions for that reason.

Borrowing could be easier said than done. ING is among those taking a closer look at underlying portfolios as LPs are more likely to prioritise capital calls to a better-performing fund when facing liquidity issues, Dinh noted.

"Overall our lending rate has slowed in Q1 because there are fewer funds and facilities being raised, but generally the market is still seeing this as a short-term issue and there is still plenty of optimism around the long-term nature of this asset class."

At a broader level, the US Federal Reserve announced several measures on Sunday to encourage banks to lend, including slashing interest rates to nearly zero and lowering reserve requirements. The People's Bank of China and The Bank of Japan have also taken similar action.

"It's a little harder to get banks' attention on new transactions right now as they're understandably busy reviewing their existing portfolios and facing logistical and technological issues due to the disruption to traditional office working," Barnett said. "The end result is a much longer period from term sheet to execution."

The rise of uncommitted debt in recent years might be cause for concern as lenders are under no obligation to honour a drawdown. Such a move is, however, unlikely given the potential reputational impact to lenders that veto a utilisation request.

"We're aware of some difficult conversations around uncommitted draw requests and expect them to increase in frequency," Barnett noted. "Lenders will be reviewing their exposure to any one particular GP or – derivatively – LP during times of stress."